

Co-operatives and Companies

Companies existed for several hundred years prior to the advent of industrial capitalism in the second half of the 18th Century, but they were few in number, and each one required a special charter, usually an Act of Parliament or equivalent, to set it up. One of these was the English East India Company, chartered in 1600. Another was the Vereenigde Oost-Indische Compagnie (VOC), known in English as the Dutch East India Company, formed in 1602, which sent Jan van Riebeeck to the Cape in 1652.

These companies were typically involved in the slave trade, or in trade of goods produced on slave plantations. They were large, and they were few in number.

When capitalism took off in the late 1700s it required a common form of business, and these businesses needed to be able to raise funds. The most common form, now, is the limited-liability “joint stock” company, which is described below. But this form took about a century from the start of the (British) Industrial Revolution to fully come into being, at the end of the 19th Century, following the famous court case known as *Saloman v. Saloman*, which we will describe. But first, let us look at what preceded the modern form.

Capitalism before Limited Companies

The chartered company was not an option for ordinary businesses. Hence, in the first century of capitalism, the typical form was either a sole proprietor, or a partnership of a few number of proprietors.

A sole proprietor is a private citizen who trades according to the general law of contract, which we have looked at earlier in this part. If he is a capitalist, he is the typical “Mr Moneybags” figure of cartoon and legend. Such men (they were nearly all men) drove the progress of modern industrial capitalism in its initial decades, and for most of the 19th Century (i.e. the 1800s, when Karl Marx and Frederick Engels were alive).

In a sole proprietorship, there is no distinction in law as between the owner, and the business.

Two or more sole proprietors can combine as partners. Partnership law is old, and quite simple. In a normal partnership, all partners are “jointly and severally” liable for any debts that the business may incur.

Sole proprietorships and partnerships were not ideal. They had problems raising funds. And if such businesses went bust (and businesses often do go bust), they took the proprietors down with them.

1844

In 1844, two things happened, in England.

By the way, the reason why England is referred to, is because it was historically the first large-scale industrial capitalist economy, and it therefore tended to experience things first, and to set down model solutions that others followed.

The first thing that happened, in this regard, in 1844, was the passing of the Joint Stock Companies Act in England.

The other thing was the founding of the “Rochdale Society of Equitable Pioneers”, which is still regarded as the foundation of the co-operatives as we know them today.

So two forms, perhaps rivals, or perhaps just variations on the same theme, came into being in the same year: 1844. This happens also to have been the year that Karl Marx and Frederick Engels formed their life-long political partnership, when they came together in Paris, France. These two forms were the joint-stock company, and the co-operative.

For the devotees of co-operatives, there is all the difference in the world between co-ops and companies. But in fact, both forms of entity came into being so as to solve the same problem. This was the need to be able to mobilise capital by subscription in relatively small amounts, so as to create a much larger fund, which would enable the acquisition of the assets needed by a substantial business.

There are differences, of course. One is that each co-operative needs to have a “statute”, equivalent to a constitution, which is unique in each co-op. This means that co-ops are harder to set up than companies, which can be put together quickly in a standard form, or even purchased ready-made, “off the shelf”. A company can be mobilised in days, while a co-op might take months to get going.

The co-op idea has remained more or less as it was, but companies were able to develop, and to find a solution to one of the problems that all the forms of business had. This solution is called “limited liability”.

Limited liability

Companies achieved full “limited liability” in 1897, following the case of *Saloman v. Saloman*, decide in an English court.

This case laid down the principle that a company is a separate legal personality, or juristic person, from its owners. If it goes bust, all the assets belonging to the company can be used to pay the creditors. But the creditors may not seek to recover money from the proprietors.

If the company goes bust, the shareholders can lose all of the money they invested in it, but no more. This is what is meant by “limited liability”.

The consequence of “limited liability” was to set people free to invest in the “equity” shares of companies, in the knowledge that although they could lose, they would not lose more than what they had invested.

The consequence was that limited companies proliferated in their millions. The legal form was also emulated in other jurisdictions than the English one, where the new form had started.

Co-ops did not proliferate in millions.

Co-ops retained a reputation for being somehow non-capitalist.

Limited companies conquered the world. Co-ops stayed marginal.

Are co-ops less capitalist than companies?

Co-ops are not less, or more, capitalist than limited companies.

Capitalism happens in the workplaces of companies, and of co-ops. Both companies and co-ops expropriate surplus labour, and turn it into profit that is either distributed, or accumulated as capital by the proprietors.

The conflict of interest between owners and workers is not eliminated in the co-op, but it exists there just as much as it exists in companies.

Marx and Lenin on Co-ops

Both Marx and Lenin thought that co-ops were hopeless, under capitalism.

Marx thought that worker co-ops might be an indication of some workers' will to escape from wage-slavery (see "The Critique of the Gotha Programme"). But he did not think anyone would succeed in escaping wage-slavery by that means.

Clearly, Marx was right. Co-ops are not revolutionary. Any advance towards socialism through the extension of co-op activity would have to be incremental, marginal, gradualist and reformist, but it could never be revolutionary.

Lenin saw value in co-ops, but only after the takeover of State Power by the proletariat. In the circumstances of Russia after the October Revolution, Lenin said that co-ops were not only good, but indispensable.

Lenin was looking at the existence of an unorganised landowning peasant class that was bigger than the Russian proletariat at the time. Lenin thought that co-operatives were going to organise the peasant class, and provide the proletarian government with a reasonable and representative peasant interlocutor.

Lenin recognised that co-ops can only be of use to the petty-bourgeoisie. Worker co-ops do exist, but they tend to render workers into petty-bourgeois. To Lenin, worker co-ops were insignificant. Co-ops do not integrate with the working class.

Co-ops can make the petty-bourgeoisie better organised, and to be organised on a larger scale. This is what made co-ops appealing to Lenin. They can reduce the unpredictability of a peasant class made up of individuals (i.e. a "sack of potatoes" as Karl Marx described them in the "18th Brumaire of Louis Bonaparte").

Experience in other countries (like India, for example) has tended to suggest that co-ops are appealing to people who are desperately poor and who have to cling together for the sake of mutual survival.

But when, through the success of the same co-ops, individuals begin to have choices again, there will be a steady stream of defections from co-op organisation, back to the more standard forms of petty-bourgeois and middle-level capitalism, such as family-based businesses, and limited companies. In this historical sequence, co-ops appear as a passing phase in the rehabilitation of the petty-bourgeoisie or peasantry. This is a useful function, but it is not a revolutionary function.

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